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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 89/108

4:30 p.m., August 23, 1989

M. Camdessus, Chairman

Executive Directors	Alternate Executive Directors
	C. Enoch
Dai Q.	
	C. S. Warner
	J. Prader
E. T. El Kogali	
E. A. Evans	S.-W. Kwon
E. V. Feldman	
	R. Marino, Temporary
R. Filosa	
	M. B. Chatah, Temporary
M. Fogelholm	
	M. A. Hammoudi, Temporary
	B. Goos
	S. P. Shrestha, Temporary
	L. E. N. Fernando
	G. Bindley-Taylor, Temporary
	D. McCormack
	J. K. Orleans-Lindsay, Temporary
Y. A. Nimatallah	M. Al-Jasser, Temporary
	D. Marcel
	G. Serre, Temporary
G. A. Posthumus	G. P. J. Hogeweg
	N. Adachi, Temporary

L. Van Houtven, Secretary and Counsellor
C. E. Wahlstrom, Assistant

Also Present
J. Candela, President, Central Bank of Peru. IBRD: S. K. Bery, Latin America and the Caribbean Regional Office. African Department: M. Touré, Counsellor and Director; N. Abu-zobaa, T. R. Muzondo. Exchange and Trade Relations Department: J. T. Boorman, Deputy Director; T. Leddy, Deputy Director; Y. J. Cho, R. A. Feldman, H. Hino, G. R. Kincaid, S. Tiwari. Legal Department: R. H. Munzberg, Deputy General Counsel; H. Elizalde, A. O. Liuksila. Treasurer's Department: F. G. Laske, Treasurer; D. Williams, Deputy Treasurer; D. Berthet, S. J. Fennell, D. Gupta, G. Wittich. Western Hemisphere Department: S. T. Beza, Counsellor and Director; M. Caiola, Deputy Director; J. Ferrán, Deputy Director; L. H. Duran-Downing, M. E. Hardy, J. E. Leimone, S. C. de Sosa, S. J. Stephens. Office of the Managing Director: A. K. Sengupta, Special Advisor to the Managing Director; P. Shome. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: J. O. Aderibigbe, A. Gronn, S. M. Hassan, J. M. Jones, P. O. Montórfano, D. Powell, A. Raza. Assistants to Executive Directors: H. S. Binay, C. Björklund, H. E. Codrington, T. T. Do, A. Y. El Mahdi, M. A. Ghavam, S. Gurumurthi, M. Hepp, J. Heywood, M. E. F. Jones, L. I. Jácome, K.-H. Kleine, C. Y. Legg, N. Morshed, A. Rieffel, Yang J.

1. LIBERIA - OVERDUE FINANCIAL OBLIGATIONS - REVIEW FOLLOWING DECLARATION OF INELIGIBILITY

The Executive Directors considered a staff paper on the further review of Liberia's overdue financial obligations to the Fund following the declaration of Liberia's ineligibility to use the Fund's general resources effective January 24, 1986 (EBS/89/165, 8/18/89; and Cor. 1, 8/21/89).

The staff representative from the African Department said that Liberia's economic and financial situation continued to be extremely difficult. The rate of growth of real GDP was tentatively projected to decline from 2.8 percent in 1988 to about 2 percent in 1989, owing largely to a slower pace of expansion of rubber and logging output. The overall fiscal deficit on a commitment basis, which amounted to an estimated 17 percent of GDP in 1988, was not expected to improve significantly in 1989. The rate of inflation remained high, the balance of payments was under great pressure, and on the parallel market, the exchange rate of the Liberian dollar vis-à-vis the U.S. dollar had weakened recently to LIB$2.32 to US$1, compared with the official rate of LIB$1/US$1. The authorities had indicated to the staff mission that they intended to put in place by January 1990 a program to address Liberia's serious economic and financial problems, but the formulation of such a program was still at a very early stage. The authorities had decided in principle to eliminate the subsidy on rice, and a working group was to determine the modalities to that end. In the ongoing discussions with the authorities, the staff was urging the authorities to undertake a comprehensive adjustment program, and to make full and prompt settlement of their overdue financial obligations to the Fund.

In response to a question by the Chairman, the staff representative said that the timing of the visit to Liberia by the Managing Director's Special Advisor had not yet been set.

The staff representative from the Treasurer's Department commented that Liberia had made a payment of SDR 240,000 on August 22, 1989. Since the previous review of Liberia's overdue financial obligations to the Fund (EBM/89/23, 2/24/89), the authorities had made payments of SDR 1.4 million, or about 5.5 percent of the obligations falling due in that period.

Mr. El Kogali said that the Minister of Finance of Liberia had indicated to him that there existed an unprecedented amount of goodwill and commitment in Liberia toward restoring relations with the Fund. At a cabinet meeting in the past week, decisions on a number of national economic issues had been taken. Since the previous review of Liberia's overdue financial obligations to the Fund, he had been in close contact with the authorities in order to find a way of reviving a meaningful dialogue between the Fund and the country. He had been encouraged by the response of the authorities, and he believed that there was hope that further progress could be made. The President of Liberia and senior members of the cabinet had indicated a willingness to work with the Fund and other multilateral institutions to find practical solutions to Liberia's economic problems. The Economic and Financial Management Committee had begun work on putting together a home-grown recovery program to be monitored by the Fund and the World Bank; aspects of that program would be discussed at the Annual Meetings in September.

There were no quick solutions to the deep-seated structural problems facing the Liberian economy, Mr. El Kogali noted. The foreign exchange shortage was a major constraint on the country's ability to clear its arrears to the Fund; however, the authorities considered the resolution of that problem to be a matter of priority. They believed that there was room for improvement in the economy, and that fiscal discipline and a rational pricing policy were among the key ingredients for a successful adjustment strategy. Those and other important issues would be discussed with the staff during the 1989 Article IV consultation discussions. However, the authorities had already made two key decisions: the Executive Order governing the current budget would be strictly enforced, and all government agencies would be required to operate within their budgets; and the rice import situation was being reviewed with a view to reducing or eliminating the subsidy.

The Fund should establish a support group for Liberia as soon as possible, as that would help the country to seek a solution to its arrears problem, and to implement a successful adjustment strategy, Mr. El Kogali commented.

The Chairman said that before a support group for Liberia could be established, the authorities would have to put together a comprehensive reform program and improve their payment performance. They should take advantage of the presence of the staff mission currently in Monrovia to resume such active cooperation with the Fund without further delay.

Mr. El Kogali said that it was the authorities' intention to explore ways of improving their relations with the Fund in the context of the Fund's collaborative approach. The authorities had recently invited the Managing Director's Special Advisor to travel to Monrovia to discuss Liberia's balance of payments problems and overdue financial obligations to the Fund. A hardline approach would be counterproductive at the present stage. In order to send a more positive signal to the authorities, he suggested that some flexibility be introduced into the Board's decision by deleting the second sentence of paragraph 4, which referred to possible communication with all Governors following the review subsequent to the current one.

Mr. Nimatallah remarked that according to the procedures for dealing with members with overdue financial obligations to the Fund approved at EBM/89/101 (7/27/89), communications to all Governors would normally be considered by the Board at the time of the first post-ineligibility review of the member's arrears. He believed that the communication regarding Liberia's continued failure to fulfill its financial obligations to the Fund should be sent to all Governors immediately following the present

Board meeting, and not following the subsequent review. Liberia had been given more than sufficient opportunity to resume active cooperation with the Fund, but the authorities did not seem to be committed to solving the country's economic problems. If Directors decided to send the communication following the present meeting, the authorities would still have an additional six months to show their commitment to reform before the Fund would review again the matter of Liberia's overdue financial obligations, at which time the Board might consider a declaration of noncooperation.

Mr. Marino said that he was concerned about the economic developments in Liberia, particularly the continued deterioration of the financial imbalances. While he welcomed the authorities' intentions to cooperate and the resumption of some payment to the Fund, he wished to support the decision proposed by the staff.

Mr. Enoch observed that the three cases of protracted arrears before the Board were of particular significance in that they offered the first opportunity to implement the recently agreed strategy for remedial measures. In the case of Liberia, the staff paper contained no positive information regarding recent policy developments. The fiscal situation had continued to deteriorate, with continued extrabudgetary expenditures, revenue earmarking, and the granting of ad hoc exemptions. This development largely reflects the authorities' failure to implement a comprehensive adjustment program, which was particularly significant in the context of the present discussion. The update provided by the staff representative provided little assurance of the authorities' willingness to cooperate with the Fund.

The resumption by Liberia of regular payments to the Fund was welcome, but insufficient to prevent the further accumulation of arrears, Mr. Enoch noted. In addition, there was no evidence that the authorities had given the Fund preferred creditor status, although the supporting data were regrettably out of date--presumably a further indication of noncooperation by the Liberian authorities. While there seemed to be no data on economic developments for the past year, the staff paper contained significant revisions of the 1987 and early-1988 data. For the period covered, payments to the Fund were only one tenth of total debt payments made by Liberia. Bilateral payments to the United States were far in excess of those to the Fund, and evidence from Liberia suggested that that had continued to be the case in the period since that covered by the data in the staff paper. The recent money-raising drive by the Liberian authorities to seek to make debt repayments to the United States is another example of the lack of priority given to the Fund.

Therefore, Liberia could not be regarded as cooperating with the Fund in an effort to clear its arrears, Mr. Enoch stated. Even if payments were of a more significant size, the absence of any effort to implement appropriate adjustment policies was a denial of cooperation. Within the new framework for remedial measures, it was time to send the proposed communication to all Governors of the Fund. In that context, he had been somewhat surprised by the staff's proposal to delay the communication until the Board discussed the staff report for the 1989 Article IV consultation with Liberia. He could go along with Mr. Nimatallah's suggestion to send the communication immediately following the present Board meeting. However, he recognized that it might be helpful to have some feedback from the mission in Monrovia before the communication was sent. Therefore, he suggested a further review within three weeks, perhaps on the basis of an oral report from the mission on its return. That approach would permit letters to be sent to Governors before the Annual Meetings of the Fund, and provide a useful signal to the Governors of the Board's resoluteness in implementing the mandate given it at the spring Interim Committee meeting.

Finally, Mr. Enoch noted that the draft decision referred to management communications with all members unless the Managing Director considered Liberia to have resumed active cooperation with the Fund. He would have thought that it was a matter for the Board to decide, not only for the Managing Director, especially as the trigger for the communication would be a further review by the Board.

Mr. El Kogali asked how Liberia would be expected to make substantial payments and put together a comprehensive reform program within three weeks.

Mr. Warner remarked that he supported Mr. Enoch's suggestion. An oral report from the mission on its return from Liberia would give the Board an opportunity to evaluate the present situation in Liberia.

The Chairman noted that if Mr. Enoch's proposed amendment of the decision was accepted, management would communicate with all Governors of the Fund regarding Liberia's failure to fulfill its financial obligations to the Fund, unless, following the 1989 Article IV consultation discussions with Liberia, it concluded that it would be warranted to bring the matter back to the Board for its consideration before the Annual Meeting of the Fund.

Mr. Evans said that he took the same position as Mr. Nimatallah. However, he could also go along with Mr. Enoch's suggested amendment of the decision. It would be unrealistic to expect Liberia to put together a comprehensive reform program and make improvements in its payment performance within three weeks. Nevertheless, he expected that Liberia would have shown clear willingness to collaborate with the Fund in seeking a solution to the problem of its arrears to the Fund.

Mr. Enoch commented that he agreed with Mr. Evans that it would be impossible for Liberia to put together a reform program within three weeks. However, an oral report from the mission on its return from Liberia would provide Directors with the opportunity to analyze the present situation in Liberia.

Mr. McCormack suggested that management communicate with all Governors of the Fund regarding Liberia's failure to fulfill its financial obligations to the Fund after the Annual Meeting of the Fund. In that way, Governors of the Fund would not be presented with a fait accompli but would have to discuss the present situation with the authorities of Liberia, perhaps with more constructive results.

Mr. Nimatallah said that he considered that management's communication to the Governors of the Fund would have a much greater impact if it was sent before the Annual Meeting.

The Chairman noted that while there was certainly merit in sending the first such communication to Governors before the Annual Meeting, there was also merit to sending it one week later, as Mr. McCormack had suggested. The Governor for Liberia would then be given a further opportunity to seek a solution to the country's arrears problem before the next stage of the procedures was reached.

Mr. Enoch commented that like Mr. Nimatallah, he saw justification for sending the communication before the Annual Meeting. Moreover, that approach would be in accordance with the mandate of the Interim Committee that the Fund should act seriously to introduce remedial measures to reduce their arrears.

Mr. El Kogali said that he wondered whether it would be appropriate to communicate with all Governors of the Fund regarding Liberia's failure to fulfill its financial obligations to the Fund, in view of Liberia's recent invitation to the Managing Director's Special Advisor to travel to Monrovia to discuss Liberia's balance of payments problems. Furthermore, he wondered whether the staff's intention had been to treat the three countries on the present agenda in a consistent manner.

Mr. Goos noted that if it was agreed that the communication was to be delayed, he could go along with Mr. McCormack's suggestion. That approach would still be in accordance with the mandate of the Interim Committee because the Board would have demonstrated its decisiveness by taking an immediate decision to send the communication, which would not however be dispatched until after the Annual Meeting.

Mr. Enoch noted that while it might be appropriate to delay the communication, given that a staff mission was present in Monrovia, for reasons of consistency with the two other cases on the agenda, it might be preferable to send the communication immediately.

Mr. Goos said that although he could go along with Mr. Enoch's suggestion to send the communication to all Governors of the Fund immediately following the present meeting, it did not seem correct to compare the case of Liberia with the case of Peru, because Liberia, unlike Peru, had resumed regular payments to the Fund.

Mr. Prader said that he agreed with Mr. McCormack's suggestion. It would be unrealistic to expect Liberia to be able to improve its payments performance within three or four weeks.

The staff representative from the African Department commented that the contact between the Liberian authorities and the Fund had not produced much progress toward an agreement on a reform program. The authorities had indicated to the staff mission that they intended to put in place, by January 1990, a home-grown program to adjust Liberia's serious economic and financial problems. However, the formulation of such a program was still at an early stage.

Mr. Nimatallah said that the Managing Director's communication with all Governors of the Fund should be sent immediately after the present meeting. Because the Fund would review again the matter of Liberia's overdue financial obligations within six months of the date of the decision, Liberia would have an additional six months to seek a solution to its arrears problem.

Mr. Posthumus commented that like Mr. Nimatallah, he considered that sending the communication immediately following the present meeting would alert all Governors to the need for a prompt response to deal with Liberia's problems. However, he would also be willing to go along with the suggestion to give Liberia a further opportunity to seek a solution to its arrears problem; therefore, he could support Mr. Enoch's proposed amendment of the decision to wait for the oral report of the staff mission on its return from Liberia before sending the communication.

The staff representative from the African Department said that the staff mission would be able to give an oral report to the Board in mid-September.

Mr. Warner remarked that he as he understood it, the Board should take an immediate decision that the Managing Director would communicate with all Governors of the Fund before the 1989 Annual Meeting regarding Liberia's failure to fulfill its financial obligations to the Fund, unless the Managing Director, following the completion of the 1989 Article IV consultation discussions concluded that the matter should be brought back to the Board for its consideration.

Mr. Posthumus said that he could agree with Mr. Warner's understanding.

Mr. Filosa commented that it was highly unlikely that Liberia would be able to put together a comprehensive reform program and make improvements in its payment performance. Therefore, he saw no reason for waiting three weeks before sending the communication to all Governors of the Fund regarding Liberia's arrears to the Fund. Management could either send the communication to the Governors immediately following the present meeting, as suggested by Mr. Nimatallah, or, as suggested by the staff, send the communication immediately following the next review. He would prefer Mr. Nimatallah's suggestion.

Mr. Fogelholm said that as the staff mission was presently in Liberia, it would be appropriate to give Liberia a further opportunity to seek a solution to its arrears problem. However, he noted that Liberia had not shown much willingness to put together a comprehensive reform program. Nevertheless, he could go along with Mr. Enoch's suggestion to send the communication to all Governors of the Fund, unless the Managing Director, following the 1989 Article IV discussions with Liberia, concluded that it would be warranted to bring the matter back to the Board for its consideration before the Annual Meeting.

Mr. Evans commented that he agreed with Mr. Filosa's comments that there were only two viable choices regarding when to send the communication to the Governors of the Fund. The letter could either be sent immediately following the present meeting, or it could be sent immediately following the next review, as suggested by the staff. He noted that it would not be possible for Liberia to put together a comprehensive reform package and make improvements in its payment performance in three to four weeks. His preference would be to send the communication to the Governors of the Fund immediately following the present meeting.

Mr. Serre said that he agreed with Mr. Enoch's suggestion to communicate with all Governors of the Fund within three weeks, unless the Managing Director, following the completion of the 1989 Article IV consultation discussions with Liberia, concluded that it would be warranted to bring the matter back to the Board for its consideration.

Mr. McCormack remarked that the question was not whether or not to send the communication to all Governors of the Fund, but rather when the communication should be sent. It was important for Liberia to realize that the Fund was extremely concerned about the country's overdue financial obligations. However, by setting a deadline of four weeks from the date of the decision for sending the communication to the Governors of the Fund, the authorities might feel motivated to resume active cooperation with the Fund before that deadline. He further noted that it would be preferable to send the communication after the Annual Meeting, which provides Liberia with an opportunity to seek assistance from friendly countries.

Mr. El Kogali said that he could support the staff's proposed decision to review the matter of Liberia's overdue financial obligations to the Fund at the time of the 1989 Article IV consultation, or within three months from the present meeting, whichever was earlier. At that time, management would consider whether it would be warranted to communicate with all Governors of the Fund regarding Liberia's overdue financial obligations to the Fund.

Mr. Adachi commented that in the event that it appeared possible that Liberia would resume active cooperation with the Fund within three weeks, he could go along with Mr. Enoch's proposed amendment of the decision. However, if that did not seem feasible, he would prefer to send the communication to the Governors of the Fund immediately following the present meeting.

The staff representative from the African Department remarked that it was highly unlikely that the Liberian authorities and the Fund would produce progress toward an agreement on a comprehensive reform program within a few weeks.

Mr. Adachi said that he realized that it was not feasible for Liberia to put together a reform program within a few weeks, but the staff might be able to indicate on its return whether or not the authorities appeared willing to resume active cooperation with the Fund.

Mr. Filosa remarked that if Directors really wanted to give Liberia a further opportunity to seek a solution to its arrears problem, it would be preferable to adopt the staff's proposal to review the matter again within three months, rather than within three weeks as suggested by Mr. Enoch.

Mr. Warner said that the reason for giving Liberia a further opportunity to seek a solution to its arrears problem, by delaying management's communication with the Governors of the Fund for another three weeks, was the hope that the staff mission could report progress toward an agreement on a comprehensive reform program in Liberia.

The Chairman said that it was his understanding that the majority of Directors believed that he should communicate with all Governors of the Fund before the 1989 Annual Meeting regarding Liberia's failure to fulfill its financial obligations to the Fund, unless following the oral report of the mission on its return from the 1989 Article IV consultation discussions, he concluded that it would be warranted to bring the matter back to the Board for its consideration.

Mr. Evans said that the decision, as amended, appeared considerably weaker than the draft decision which had referred to the resumption of active cooperation with the Fund.

Mr. Orleans-Lindsay remarked that the position of his chair was well known. The procedure of communicating with all Governors of the Fund about countries with overdue financial obligations did not provide solutions to the problems of overdue countries; instead, it damaged further the international reputation of the countries concerned.

Mr. Warner, Mr. Enoch, and Mr. Posthumus said that they were of the view that the Managing Director should communicate with all Governors of the Fund, unless, following the return of the Article IV consultation mission from Liberia, he concluded that it would be warranted in bringing the matter for reconsideration by the Executive Board before the 1989 Annual Meeting of the Fund.

The Chairman said that he agreed that Liberia should be given a further chance to show its willingness to cooperate; because it had resumed regular, although insufficient payments to the Fund; because the President of Liberia had recently invited his Special Advisor to travel to Monrovia to discuss Liberia's balance of payments problems and overdue financial obligations to the Fund; and because the 1989 Article IV consultation mission was holding discussions in Monrovia.

Mr. Nimatallah considered that it was vital to send the communication to the Governors of the Fund following the present meeting. Liberia had been given more than sufficient opportunity to show its willingness to cooperate with the Fund. The authorities would have an additional six months from the date of the decision to resume active cooperation with the Fund before the Board would consider a declaration of noncooperation.

The Chairman said that he would prefer not to jeopardize the outcome of the pending discussions with the staff and the Special Advisor.

Mr. Filosa noted that although Liberia's circumstances were quite different from the circumstances of the two other countries on the present agenda, the staff's proposed decisions were identical in all three cases. It appeared that it would be appropriate to take those differences into consideration when formulating the decisions.

The Executive Board then took the following decision:

1. The Fund has reviewed further the matter of Liberia's continuing failure to fulfill its financial obligations to the Fund in the light of the facts and developments described in EBS/89/165 (8/18/89) and Correction 1 (8/21/89).

2. The Fund deeply regrets the continuing failure of Liberia to fulfill its financial obligations to the Fund, which are placing a financial burden upon other members and reducing Fund resources needed to help others. The Fund welcomes the resumption of regular payments to the Fund by Liberia but notes with regret that these payments have remained modest, while Liberia has continued to make substantial payments to other creditors. The Fund again urges Liberia to make full and prompt settlement of the overdue financial obligations to the Fund, and stresses that settlement of these arrears should be given the highest priority.

3. The Fund urges Liberia to adopt as a matter of urgency a comprehensive set of measures within the context of the cooperative approach that would bring about necessary economic

adjustment. The Fund continues to stand ready to assist the authorities in support of efforts to formulate and implement a comprehensive adjustment program.

4. The Managing Director shall communicate with all Governors of the Fund and the President of the African Development Bank regarding Liberia's continued failure to fulfill its financial obligations to the Fund, unless the Managing Director, following the 1989 Article IV consultation discussions with Liberia, concludes that it would be warranted to bring the matter for consideration by the Executive Board before the 1989 Annual Meeting of the Fund.

5. The Fund will review the matter of Liberia's overdue financial obligations to the Fund again at the time of the 1989 Article IV consultation with Liberia or within three months from the date of this decision, whichever is earlier.

Decision No. 9237-(89/108), adopted
August 23, 1989

2. PERU - OVERDUE FINANCIAL OBLIGATIONS - REVIEW FOLLOWING DECLARATION OF INELIGIBILITY

The Executive Directors considered a staff paper on the further review of Peru's overdue financial obligations to the Fund following the declaration of Peru's ineligibility to use the Fund's general resources effective August 15, 1986 (EBS/89/166, 8/18/89).

Mr. Candela made the following statement:

The last time I took part in an Executive Board meeting was to reaffirm, on behalf of my Government, the need to strengthen the dialogue with the Fund, and to explain my authorities' economic policy of flexible adjustment, which was being pursued within a medium-term economic program. This policy has been sustained through the persistent application of measures to help redress the external and domestic imbalances of Peru's economy.

In July, Peru publicly reaffirmed its decision to restore normal relations with its creditors. A former Minister of Economy and Finance, Mr. Abel Salinas, was recently appointed foreign debt negotiator and will arrive in Washington, D.C. in the near future to establish the necessary contacts. This is a clear signal of Peru's readiness to maintain a dialogue with creditors in order to solve its problems of overdue financial obligations, while meeting a number of social and economic recovery goals. This approach will allow Peru to assure political stability and consolidate the democratic process.

Difficult social and political circumstances have forced Peru to adopt a gradual, but strict approach, toward reaching certain goals within the framework of an adjustment program. Technical consistency has been conjoined with social and political feasibility. The persistent implementation of corrective measures since December 1987 has given significant results in the areas of exchange, fiscal, and monetary policy.

The exchange policy produced positive results during the first seven months of 1989, including a trade surplus and a slight recovery in exchange reserves. This outcome is a consequence of a sizable demand cutback, which led to a lower level of output and a significant increase in export values and volumes, thus reflecting the stabilization effort. The rate of inflation has declined, but nevertheless remains very high.

The slight recovery in the level of exchange reserves is still insufficient. It is important to point out that a large share of the supply and demand for foreign exchange is met in the free market, and that exporters receive 50 percent of their export receipts in foreign exchange certificates, which may be used to pay for imports or to meet debt service payments. In addition, the exchange policy is aimed at strengthening the positive results achieved through daily adjustments of the exchange rate to maintain exchange parity. These adjustments have brought the spread between the free exchange rate and the so-called official rate practically to zero, and have assured a relatively stable exchange market.

The fiscal policy objective is to reduce the deficit. New tax measures have been adopted to enhance tax revenue and, by end-1989, there will be a further reduction of subsidies. Moreover, a program has been initiated to privatize some public enterprises, and to rationalize and financially rehabilitate others.

In the monetary area, a largely restrictive credit and financial policy has been pursued. The Central Bank was forced to approve a support loan for the Government in July, subject to compliance with a disbursement schedule and approval of additional tax policy measures, to help to restore economic conditions. However, despite the approval of this loan, the Central Government's net credit position has remained negative throughout 1989. The objective of increased financial intermediation is being achieved through a positive real interest rate, which is contributing to the dedollarization of the economy.

On the revenue side, a policy of gradual wage recovery has been established in order to increase purchasing power as part of the Government's overall objective of revitalizing growth as well as reducing and stabilizing the rate of inflation. The goal is to pass on to the new Government, which is to be elected in April 1990, a growing economy, with normal relations with the international financial community.

Positive results have been obtained in the external sector in recent months, but these results are still insufficient, domestic equilibrium has yet to be fully re-established, and drug trafficking and terrorism have to be dealt with. Terrorism has had a serious impact on the normal course of productive activity, threatening the life of people and the political tranquility necessary to guarantee the consolidation of the democratic process.

I do not intend to convey emotional or subjective arguments to the Board, but to point clearly to the problems Peru is facing, and to how the authorities will solve these problems. I must stress that terrorism is a real problem in Peru; it has become a variable with clear negative economic effects. I should mention that more than 250 high-voltage transmission lines have been destroyed in the past 12 months, causing interruptions in productive activities. Important mining centers have been attacked, paralyzing an appreciable Peruvian source of foreign exchange. Moreover, terrorists have found new ways of causing fear in urban centers, which are affecting the normal course of productive activity.

These circumstances require additional financial resources and make it difficult to attain the objective of financial rehabilitation. Taking these additional constraints into account, the Peruvian Government has pursued the efforts needed to reach the economic and social targets aimed at improving living conditions and the relations with Peru's creditors.

A number of financial obligations to international institutions and countries have been settled in order to obtain new financing, particularly to assure supplies of food and support for the agricultural sector. Although Peru has suspended payments to other creditors, it remains current in its payments to the SDR Department of the Fund. Although this is not enough, Peru's limited capacity to pay has to be recognized.

I want to reiterate my authorities' readiness to increase contacts between Peru and the Fund, and their desire to find approaches that will lead to a normalization of their relations with the international community. In addition, they are welcoming a mission for the 1989 Article IV consultation discussions.

Mr. Nimatallah observed that Peru had been given a number of opportunities to resume active cooperation with the Fund, but, the Peruvian authorities had given no evidence of commitment to restoring relations with the international financial community, which for its part stood ready to cooperate. Furthermore, the economic situation in Peru had continued to deteriorate. He suggested that the Managing Director send a communication to that effect to all Governors, forthwith.

Mr. Evans commented that the staff paper demonstrated that the economic and social crisis confronting Peru had worsened significantly since the previous review of Peru's overdue financial obligations to the Fund (EBM/89/23, 2/24/89). Since that review, the rate of inflation had almost doubled. Despite the further dramatic economic deterioration, the authorities seemed unable to acknowledge that a comprehensive reform program was clearly needed. The Minister of Economy and Finance of Peru had presented some long overdue fiscal and microeconomic reforms, but those were to be accompanied by efforts to slow down the depreciation of the official exchange rate and stimulate demand, while indexing salaries and seeking to lower domestic interest rates. Those efforts appeared to be completely unrealistic, and a sensible policy debate did not seem likely until after the forthcoming elections. However, immense further damage could be done in the intervening period.

Notwithstanding some prospect at the previous review of Peru's overdue financial obligations to the Fund, that the increased contact between the Peruvian authorities and the Fund would produce progress toward an agreement on a comprehensive reform program and improvements in Peru's payment performance, the economic situation had deteriorated further, Mr. Evans noted. The staff report did not provide any reason to expect a change on those fronts in the foreseeable future. Therefore, the Managing Director should communicate with all Governors of the Fund immediately following the present meeting, and should indicate that the Board would consider a declaration of noncooperation within six months. In addition, to be consistent with the treatment of Sierra Leone and Liberia, the decision should perhaps state that the Fund considered that it would be inappropriate to provide Peru with technical assistance.

Mr. Warner said that he agreed with Mr. Nimatallah's suggestion to communicate with all Governors of the Fund immediately following the present meeting. However, he noted that there was ample time for Peru to react to the decision and begin to enter into the level of cooperative relationship that would permit the Board to review the case of Peru in the coming months.

Mr. Adachi said that he welcomed Mr. Candela's statement that Peru was willing to cooperate with the Fund. However, it was highly regrettable that the last mission to Peru in April 1989 had not succeeded in making any progress toward an agreement on an adjustment program or on the settlement of Peru's arrears to the Fund. In addition, the staff had indicated that the economic situation in Peru had deteriorated further. The shrinking size of the economy, together with hyperinflation and external arrears, illustrated the urgent need for the authorities to adopt a comprehensive adjustment program. While he welcomed the measures announced by the Minister of Economy and Finance, including revenue-enhancing measures, he reiterated his hope that Peru would adopt immediately a comprehensive adjustment program that would pave the way to the settlement of its arrears to the Fund. The announced relaxation of fiscal and monetary policy would no doubt accelerate the rate of inflation and exacerbate the external deficits. However, given the election schedule, his hopes had almost evaporated.

Although Peru's modest payments to the Fund were welcome, the rapid increase in its arrears to the Fund raised serious concerns that the situation would soon become intractable, Mr. Adachi remarked. He also expressed regret that Peru did not treat the Fund as a preferred creditor. Peru's economic policy and repayment performance to the Fund cast serious doubts on Peru's willingness to cooperate with the Fund. Moreover, he noted that the authorities had closely followed the Board discussions on Peru's overdue obligations to the Fund. Therefore, he questioned the usefulness of providing the authorities with a further opportunity to resume active cooperation with the Fund. However, he was willing to support the proposed decision.

Mr. Enoch recalled that when the Board last reviewed Peru's arrears to the Fund in February there had seemed to be some prospect that discussions between the authorities and the staff might produce the kind of comprehensive adjustment program which was essential to avoid a complete collapse of the Peruvian economy. However, any hope that the authorities might be prepared to adopt such a program seemed to have disappeared. The economic situation had worsened since the previous review, and it looked set to deteriorate further. The staff had indicated that no early reversal of policies seemed in prospect.

The staff's account of the authorities' current policies made depressing reading, Mr. Enoch went on. GDP had declined by 21 percent in the first half of 1989, compared with the same period a year earlier, and the rate of inflation in the period January-April had averaged 45 percent a month. In April, the authorities announced that their approach to the problem of inflation would be to hold down government prices and interest rates, and slow the depreciation of the official exchange rate. Meanwhile, they would try to increase real wages and seek to stimulate demand in selected sectors of the economy. They had since taken action to try to give effect to these intentions, thus seeming to have fallen back into reviving policies that had already been seen to be clearly inappropriate.

Peru's problems had been compounded by its attitude toward its overseas creditors, Mr. Enoch commented. The arbitrary limit on debt service payments reportedly remained in force, and the authorities had chosen to use helpful exogenous developments to accumulate foreign exchange reserves, rather than attempt to meet their obligations. Moreover, other creditors continued to be given preference over the Fund.

In the circumstances, he saw no alternative to the initiation of the agreed sequence of remedial measures, beginning with the communication to all Governors of the Fund, Mr. Enoch stated. There was no reason to delay the communication until after a further review, as the staff proposed. The Peruvian authorities had already been allowed more than sufficient opportunity to resume active cooperation with the Fund. Therefore, he suggested that the decision be amended so as to initiate the communication immediately.

In addition, the Board had never taken a formal decision to deny the provision of technical assistance to Peru, Mr. Enoch noted. Although there was currently no technical assistance to be withdrawn, consistency required that Peru be subject to the same remedial measures as other members in similar circumstances. Therefore, he suggested that the proposed decision should include a paragraph declaring the provision of technical assistance to be inappropriate, in the case of Peru. The wording would be taken directly from the Board's decisions at the last review of Liberia and Sierra Leone.

Mr. Goos said that he wished to associate himself with the views of the previous speakers. Peru was the most protracted case of arrears to the Fund, although like Mr. Warner, he would expect that Peru would now try to normalize its relations with the Fund as soon as possible.

Mr. McCormack stated that he too agreed that the Managing Director should communicate immediately with all Governors of the Fund.

Mr. Marcel said that he would have preferred to treat the case of Peru in the same way as the case of Liberia. However, he could go along with Mr. Nimatallah's suggested amendment of the proposed decision.

Mr. Filosa commented that he shared the views expressed by Mr. Nimatallah and Mr. Warner. Moreover, he hoped that Peru would try actively to resume cooperation with the Fund and the international financial community as soon as possible.

Mr. Prader said that he supported the view of the majority, including Mr. Warner's helpful comments. At the time of the 1988 Article IV consultation with Peru, his constituency had proposed a set of measures that could improve Peru's economic situation. However, it was clear that the authorities had not made any efforts to resume active cooperation with the Fund.

Mr. Posthumus said that he took the same position as Mr. Prader.

Mr. Orleans-Lindsay said that he reserved his position because his chair did not support the procedure of sending communications to Governors of the Fund regarding countries with overdue financial obligations to the Fund.

Mr. El Kogali, Mr. Feldman, and Mr. Marino indicated that they preferred the staff's proposed decision.

The Chairman noted that the clear message that the Executive Board wished to convey to the Government of Peru was that there should be no further delay on its part in resuming active cooperation with the Fund. At the same time, Directors shared the hope that a resumption of active cooperation would result from continued contact with the Fund. Peru must give the world community clear evidence of giving high priority to settling its overdue obligations to the Fund.

Mr. Candela commented that he would convey to his authorities the views expressed by Directors. In addition, he wanted to emphasize his authorities' willingness to resume active cooperation with the Fund.

Mr. Warner commented that he supported Mr. Enoch's suggestion to state in the decision that the Fund considered that it would be inappropriate to provide Peru with technical assistance.

Mr. Nimatallah said that he too supported Mr. Enoch's proposal.

Mr. Feldman commented that the proposal on technical assistance ran counter to the unanimous view of the Board on the desirability of renewed cooperation between Peru and the Fund.

Mr. El Kogali, Mr. Prader, and Mr. Hammoudi commented that they could not accept Mr. Enoch's proposal to refer to technical assistance.

Mr. Warner said that the reason for including a paragraph on technical assistance in the case of Peru was to be consistent with the cases of Liberia and Sierra Leone. However, if Peru resumed active cooperation with the Fund, he believed that the Board would find it appropriate to provide Peru with technical assistance.

Mr. Filosa and Mr. Goos also stated that they supported Mr. Enoch's proposal.

The Chairman noted that Directors had agreed that he should communicate with all Governors of the Fund and the President of the Inter-American Development Bank immediately, regarding Peru's continued failure to fulfill its financial obligations to the Fund. However, since he expected to discuss Peru's economic situation with the authorities in the following week, and he believed that the Peruvian authorities might be able to make a payment of SDR 30 million to the Fund, he suggested that the communication be sent to the Governors after those discussions instead of immediately following the present meeting.

Mr. Warner remarked that he could go along with the Chairman's suggestion, with the understanding that the Managing Director would communicate with all Governors of the Fund regarding Peru's continued failure to fulfill its financial obligations to the Fund, unless the Managing Director, following his forthcoming discussions with the authorities, concluded that it would be warranted to bring the matter back to the Board for its consideration before the Annual Meeting.

Mr. Posthumus said that he could agree with Mr. Warner's comments.

Mr. Fogelholm commented that he could go along with Mr. Warner's suggestion, although he noted that the Peruvian authorities had recently adopted economic measures that were contrary to the measures the Fund wanted the authorities to pursue. He did not have reason to believe that the authorities would start implementing a comprehensive reform program within a reasonable time.

Mr. Warner said that he could understand Mr. Fogelholm's concern. However, the fact was that the communication to the Governors of the Fund would be sent, unless the Managing Director would find any reason, in his forthcoming discussions with the authorities, to believe that Peru was actually serious about resuming active cooperation with the Fund.

The Chairman commented that, in his discussions with the authorities, he would request a substantial payment to the Fund, a fixed date for the 1989 Article IV consultation discussions with Peru, and a set of measures that would help to improve the economic situation in Peru. If the authorities could not satisfy those conditions, he would immediately communicate with all Governors of the Fund regarding Peru's overdue financial obligations to the Fund.

Mr. Al-Jasser and Mr. Evans both said that although they shared Mr. Fogelholm's concern, they could go along with the suggestion made by Mr. Warner.

The Executive Board then took the following decision:

1. The Fund has reviewed further the matter of Peru's continuing failure to fulfill its financial obligations to the Fund in the light of the facts and developments described in EBS/89/166 (8/18/89).

2. The Fund deeply regrets the continuing failure of Peru to settle its arrears to the Fund, which are placing a financial burden upon other members and reducing Fund resources needed to help others. The Fund again urges Peru to reconsider the arbitrary limit it applies on debt service payments and to make full and prompt settlement of its overdue obligations to the Fund, and stresses that settlement of these arrears should be given the highest priority. The Fund notes that only modest payments have been received from Peru since 1986. In this context, the Fund regrets that Peru has not sought to meet its obligations to the Fund while making payments to other creditors.

3. In the current circumstances, the Fund considers the provision of technical assistance to Peru to be inappropriate. The Fund will be prepared to consider the appropriateness of

such assistance if action is taken by Peru that shows its willingness to collaborate with the Fund in seeking a solution to the problem of Peru's arrears to the Fund.

4. The Fund urges Peru to adopt as a matter of urgency a comprehensive set of measures within the context of the cooperative approach that would bring about necessary economic adjustment. The Fund continues to stand ready to assist Peru in the formulation and implementation of a comprehensive adjustment program.

5. Given the absence of Peru's active cooperation with the Fund in seeking solutions to its problem of overdue financial obligations to the Fund, the Managing Director shall communicate with all Governors of the Fund and the President of the Inter-American Development Bank regarding Peru's continued failure to fulfill its financial obligations to the Fund, unless the Managing Director, in his forthcoming discussions with the Peruvian authorities, concludes that it would be warranted to bring the matter for consideration by the Executive Board before the 1989 Annual Meeting of the Fund.

6. The Fund will review again the matter of Peru's overdue financial obligations within six months from the date of this decision, at which time the Executive Board may consider a declaration of noncooperation concerning Peru in the event that the member has not resumed active cooperation with the Fund in seeking solutions to its problem of overdue financial obligations to the Fund.

Decision No. 9238-(89/108), adopted
August 23, 1989

3. SIERRA LEONE - OVERDUE FINANCIAL OBLIGATIONS - REVIEW FOLLOWING DECLARATION OF INELIGIBILITY

The Executive Directors considered a staff paper on the further review of Sierra Leone's overdue financial obligations to the Fund following the declaration of Sierra Leone's ineligibility to use the Fund's general resources effective April 25, 1988 (EBS/89/167, 8/18/89; and Cor. 1, 8/21/89).

Mr. El Kogali said that he had received a communication from the Minister of Finance, stating that the Government of Sierra Leone was making every endeavor to meet current obligations to the Fund, that the foreign exchange situation was tight, but an effort was being made to address the arrears problem, and the Fund's assistance--for instance, in arranging a bridging loan--would be greatly appreciated.

An important development, in the months since the last review of Sierra Leone's overdue obligations to the Fund in February (EBM/89/23, 2/24/89) was the renewed effort of the authorities to improve their relations with the Fund and to take advantage of the Fund's new collaborative initiative. The President of Sierra Leone, the Minister of Economy and Finance, and the Governor of the Bank of Sierra Leone had all expressed their intention to resume active cooperation with the Fund. They hoped to be able to implement a Fund-monitored program, which would lead to the establishment of a support group for Sierra Leone, thereby facilitating payments to the Fund. He believed that the Board should accelerate the process of establishing a support group for Sierra Leone.

The staff had indicated that the authorities had begun to implement several measures that should improve the performance of the economy, including a major exchange rate adjustment in the context of a floating rate regime, substantial increases in producer prices of agricultural products, and strengthening of revenue collection procedures, Mr. El Kogali noted. In addition, the authorities intended to contain the wage bill and cancel several contracts for the purchase of materials and supplies.

Moreover, negotiations that would significantly increase the country's foreign exchange earnings from the exploitation of rutile had been concluded, Mr. El Kogali noted. Export licenses for gold and diamonds were being freely issued, and private traders were allowed to import rice. Until recently, rice could only be imported by the Sierra Leone Produce Marketing Board, which sometimes sold imported rice at too low prices. The second point in favor of the early establishment of a support group for Sierra Leone was that the country's overdue payments to the Fund was relatively small--SDR 64.8 million as of August 15, 1989. Forthcoming payments for the next few years appeared to be manageable, especially if the present adjustment effort was strengthened and supported by the timely disbursement of concessional assistance. Sierra Leone was a case in which proper timing of external assistance, together with strong adjustment, could make the difference between success or failure. He hoped that the international financial community would realize the critical situation before the problems got even worse.

The Board should send a positive signal to the authorities, indicating that the Fund would stand ready to offer its assistance and to make the new collaborative approach a workable alternative, Mr. El Kogali said. Therefore, he suggested the deletion of the second sentence of paragraph 4 of the proposed decision, referring to a communication to all Governors.

Mr. Enoch made the following statement:

> This is the third review Sierra Leone's arrears since it was declared ineligible. Throughout that period, and indeed for a substantial length of time before then, the Board found little

to commend in either Sierre Leone's policy or payments performance. At the time of the last review of Sierra Leone's overdue obligations to the Fund, I argued that the continuing paralysis in policymaking in Sierra Leone, and the authorities' failure to cooperate with the Fund, left the Board with no alternative but to implement remedial measures. The staff paper suggests that those measures, together with the continued deterioration in Sierra Leone's economic situation, have at last begun to convince the authorities of the urgent need to return to the path of adjustment and to resume active cooperation with the Fund.

In particular, the staff paper indicates that a number of difficult but crucial policy changes have been introduced since our last review in February. The sharp devaluation of the leone has reduced the differential between the parallel and official exchange rates to a level that is quite low by African standards. The tightening of fiscal policy was helped by a resolute and effective attempt to eliminate ghost workers from the civil service. The fiscal tightening looks set to be sustained over the coming year, given the welcome measures included in the recent budget, including the courageous decision to increase the petroleum excise tax by 2,000 percent, which led to a doubling of petrol prices.

On the structural side, considerable progress has been made with the complete liberalization of coffee and cocoa marketing, and the rationalization of the role of the Sierra Leone Produce Marketing Board. In addition, efforts have been made to increase the proportion of export receipts flowing into the official sector by reducing export taxes.

All these measures point to the authorities' renewed commitment to the reduction of domestic imbalances, and to the restoration of the official sector within the economy at the expense of the parallel sector. Nevertheless, these measures represent only a first step on the long and difficult adjustment path. As the authorities recognize, additional efforts will be required in many areas if an effective and comprehensive program is to be put in place. In particular, a further devaluation of the exchange rate, combined with tight financial policies, including the restoration of positive real interest rates, will be a crucial prerequisite for improving the flow of foreign exchange into the official sector. In addition, the authorities will need to adhere rigidly to their intention to avoid all extrabudgetary expenditure, and to eliminate monetary financing of the residual fiscal deficit.

The other major test of Sierra Leone's intention to resume active cooperation with the Fund is the authorities' record of payments. Unfortunately, progress in this area has not been impressive over the past six months. However, there have been some modest signs of improvement; out of the foreign exchange reserves of $680,000, available to them at mid-June, the authorities have made two payments to the Fund totaling about $400,000. While these payments are small in relation to Sierra Leone's overdue obligations to the Fund, they amount to a rather sizable proportion of the authorities' free reserves. I believe we can take these payments as a helpful first indication of the authorities' recognition of the key importance of restoring their relations with the Fund.

I view the case of Sierra Leone as different from the two other cases on the agenda. There are some grounds for hoping that a decisive point has been reached with respect to Sierra Leone's arrears to the Fund. If the authorities are prepared to follow up their current policy changes with further action to tighten financial policies and to reintegrate the parallel sector into the official economy, and if they are willing to allocate a continuing high proportion of their foreign exchange reserves to making regular payments to the Fund, this might pave the way to a constructive dialogue between the authorities and the staff at the time of the 1989 Article IV consultation discussions with Sierra Leone.

At this critical juncture, it may be counterproductive to threaten further remedial actions. My preference would be to give the authorities a chance to demonstrate that they are fully committed to restoring relations with the Fund. The forthcoming mission will give the staff an opportunity to gauge whether any further progress has been made, or whether the authorities have, once again, failed to follow through their stated good intentions.

Against this background, I would propose some changes in the draft decision to acknowledge the payments that have been made, rather than regretting the modest amounts. The words "the Fund acknowledges the recent payments made by Sierra Leone but..." should be inserted at the beginning of paragraph 2. The first part of the second sentence would be deleted, and would read "the Fund urges Sierra Leone to make full and prompt settlement." The second sentence of paragraph 4 could be deleted.

Mr. Marino commented that he could go along with the consensus that emerged. He could accept the view expressed by Mr. Enoch.

Mr. Serre remarked that despite increased contact between the Fund and Sierra Leone, as well as the recent adoption of adjustment measures and the modest payments to the Fund, there was not sufficient evidence of the authorities' willingness to improve the present economic situation. Nonetheless, he believed that it was necessary to give Sierra Leone the opportunity to demonstrate its ability to cooperate with the Fund. In that respect, he would expect as a first step a substantial payment to the Fund, and a precise timetable for the further settlement of overdue financial obligations to the Fund. He supported the proposed decision as amended by Mr. Enoch.

Mr. Adachi said that he joined other Directors in welcoming Sierra Leone's intention to resume active cooperation with the Fund. In particular, the adjustment measures which the authorities had introduced recently provided an encouraging sign that the authorities were aiming in the right direction. However, they should take further steps to bring the economy back to a solid path of adjustment, as well as to settle their arrears to the Fund. The authorities were strongly encouraged to strengthen the measures announced for 1989/90. In that context, containment of extra-budgetary expenditures would be essential to stabilize the economy.

It was regrettable that outstanding arrears to the Fund had increased rapidly since the last review, despite the modest payments made by the authorities, Mr. Adachi said. Sierra Leone's forthcoming obligations to the Fund could soon make its situation intractable. Given the strong desire expressed by the authorities to normalize their relations with the Fund, he urged them to resume regular and substantial repayments in order to demonstrate their willingness to cooperate. So far, the authorities had not given sufficient indication of their willingness to cooperate with the Fund. Therefore, he believed that although sending a communication to the Governors of the Fund was warranted, the Fund should refrain from doing so at the current stage, given that authorities had expressed a commitment to cooperate.

He supported the proposed decision, as well as Mr. Enoch's proposed amendment, Mr. Adachi noted. As to paragraph 4, he preferred the original wording, but was willing to go along with the majority view. The staff might need to bring forward the 1989 Article IV consultation discussions with the authorities in order to keep to the schedule presented in the proposed decision.

Mr. Fogelholm stated that, although Sierra Leone had taken considerable steps toward a comprehensive program, it had only made modest payments to the Fund. Therefore, it should be stated in the decision that the Fund might consider communicating with all Governors of the Fund regarding Sierra Leone's overdue financial obligations to the Fund.

Mr. Goos commented that he agreed with Mr. Fogelholm's proposed amendment of the decision. He noted that there were no clear indications of Sierra Leone's intentions to repay the Fund. He noted also that Sierra Leone still had overdue financial obligations to the African Development Bank, despite a bridge financing arrangement earlier in the year. The Government should be put on notice that it must establish a record of sustained adjustment and also of sustained payments to the Fund.

The Chairman commented that Mr. Fogelholm's proposed amendment of the decision would provide an opportunity for Sierra Leone to show its willingness to cooperate with the Fund.

Mr. Warner said that he could support the proposed decision as amended, including Mr. Fogelholm's proposal.

Mr. Evans stated that he was willing to accept Mr. Fogelholm's suggested amendment of the decision. In addition, he proposed that the Fund should review again the matter of Sierra Leone's overdue financial obligations to the Fund at the time of the 1989 Article IV consultation with Sierra Leone or within four months--instead of three months, as proposed by the staff--from the date of the decision, whichever was earlier.

Mr. Posthumus, Mr. McCormack, Mr. Prader, and Mr. Al-Jasser said that they supported Mr. Fogelholm's proposed amendment of the decision.

Mr. Orleans-Lindsay commented that he agreed with Mr. Enoch's suggested amendment of the decision to reflect the payments that had been made; and he could go along with the consensus that had emerged.

Mr. Filosa remarked that he could support Mr. Fogelholm's proposal, although he saw some risk in not treating the three countries on the present agenda similarly. Sierra Leone had shown serious signs of its willingness to resume active cooperation with the Fund, but much more had to be done to form the basis for an adjustment program.

Mr. Dai commented that his authorities had reservations about the procedure of communicating with all Governors of the Fund regarding countries with overdue financial obligations to the Fund.

Mr. Enoch said that he was willing to go along with Mr. Fogelholm's proposed amendment of the decision.

The Executive Board then took the following decision:

1. The Fund has reviewed further the matter of Sierra Leone's continuing failure to fulfill its financial obligations to the Fund in the light of the facts and developments described in EBS/89/167 (8/18/89); and Cor. 1 (8/21/89).

2. The Fund acknowledges the recent payments by Sierra Leone, while deeply regretting Sierra Leone's continued failure to fulfill its financial obligations to the Fund, which are placing a financial burden upon other members and reducing Fund resources needed to help others. The Fund urges Sierra Leone to make full and prompt settlement of the overdue financial obligations to the Fund; and stresses that settlement of these arrears should be given the highest priority.

3. The Fund welcomes the indication by the authorities of their intention to resume cooperation with the Fund and to address the problem of Sierra Leone's overdue financial obligations to the Fund, as well as the recent adoption by the authorities of measures to address the country's economic and financial problems. The Fund urges the authorities to continue and intensify their economic adjustment efforts and to adopt as a matter of urgency a comprehensive set of adjustment measures. The Fund continues to stand ready to assist the authorities in support of efforts to formulate and implement a comprehensive adjustment program.

4. The Fund will review again the matter of Sierra Leone's overdue financial obligations to the Fund at the time of the 1989 Article IV consultation with Sierra Leone or within four months from the date of this decision, whichever is earlier. On that occasion, the Fund may consider communicating with all Governors of the Fund and the President of the African Development Bank regarding Sierra Leone's continued failure to fulfill its financial obligations to the Fund, unless the Fund finds that Sierra Leone has resumed active cooperation with the Fund in seeking solutions to its problem of overdue financial obligations to the Fund.

Decision No. 9239-(89/108), adopted
August 23, 1989

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/89/107 (8/21/89) and EBM/89/108 (8/23/89).

4. JOINT COMMITTEE ON REMUNERATION OF EXECUTIVE DIRECTORS - GOVERNORS' VOTE

The Executive Board approves the report of the Secretary (EBAP/89/172, Sup. 2, 8/22/89) on the canvass of votes of the Governors on Resolution No. 44-3, with respect to remuneration of Executive Directors and their Alternates, approved by the Executive Board (EBM/89/88, 7/7/89) for submission to the Board of Governors. The Governors' vote on the Resolution is recorded as follows:

Total affirmative votes		706,994
Total negative votes		182,558
Total votes cast		889,552
Abstentions recorded	5,756	
Total replies		895,308
Votes of members that did not reply		42,317
Total votes of members		937,625

Decision No. 9240-(89/108), adopted
August 23, 1989

5. GUYANA - TECHNICAL ASSISTANCE

In response to a request from the Guyanese authorities for technical assistance in the central banking field, the Executive Board approves the proposal set forth in EBD/89/251 (8/16/89).

Adopted August 21, 1989

6. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director and by an Advisor to Executive Director as set forth in EBAP/89/204 (8/21/89) is approved.

APPROVED: April 11, 1990

LEO VAN HOUTVEN
Secretary